

STATE OF SOUTH CAROLINA

Petition of South Carolina Electric & Gas Company
for authorization to delay the commencement of
depreciation of certain pollution control facilities and
to defer purchased power and incremental operation
and maintenance expenses that will be incurred as a
result of construction of these pollution control
facilities

BEFORE THE
PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA

COVER SHEET

DOCKET

NUMBER: 2008 - - E

(Please type or print)

Submitted by: K. Chad Burgess

SC Bar Number: 69456

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Other:

Email: chad.burgess@scana.com

NOTE: The cover sheet and information contained herein neither replaces nor supplements the filing and service of pleadings or other papers as required by law. This form is required for use by the Public Service Commission of South Carolina for the purpose of docketing and must be filled out completely.

DOCKETING INFORMATION (Check all that apply)

☐ Emergency Relief demanded in petition ☒ Request for item to be placed on Commission's Agenda expeditiously

☐ Other:

INDUSTRY (Check one)	NATURE OF ACTION (Check all that apply)		
<input checked="" type="checkbox"/> Electric	<input type="checkbox"/> Affidavit	<input checked="" type="checkbox"/> Letter	<input type="checkbox"/> Request
<input type="checkbox"/> Electric/Gas	<input type="checkbox"/> Agreement	<input type="checkbox"/> Memorandum	<input type="checkbox"/> Request for Certification
<input type="checkbox"/> Electric/Telecommunications	<input type="checkbox"/> Answer	<input type="checkbox"/> Motion	<input type="checkbox"/> Request for Investigation
<input type="checkbox"/> Electric/Water	<input type="checkbox"/> Appellate Review	<input type="checkbox"/> Objection	<input type="checkbox"/> Resale Agreement
<input type="checkbox"/> Electric/Water/Telecom.	<input type="checkbox"/> Application	<input checked="" type="checkbox"/> Petition	<input type="checkbox"/> Resale Amendment
<input type="checkbox"/> Electric/Water/Sewer	<input type="checkbox"/> Brief	<input type="checkbox"/> Petition for Reconsideration	<input type="checkbox"/> Reservation Letter
<input type="checkbox"/> Gas	<input type="checkbox"/> Certificate	<input type="checkbox"/> Petition for Rulemaking	<input type="checkbox"/> Response
<input type="checkbox"/> Railroad	<input type="checkbox"/> Comments	<input type="checkbox"/> Petition for Rule to Show Cause	<input type="checkbox"/> Response to Discovery
<input type="checkbox"/> Sewer	<input type="checkbox"/> Complaint	<input type="checkbox"/> Petition to Intervene	<input type="checkbox"/> Return to Petition
<input type="checkbox"/> Telecommunications	<input type="checkbox"/> Consent Order	<input type="checkbox"/> Petition to Intervene Out of Time	<input type="checkbox"/> Stipulation
<input type="checkbox"/> Transportation	<input type="checkbox"/> Discovery	<input type="checkbox"/> Prefiled Testimony	<input type="checkbox"/> Subpoena
<input type="checkbox"/> Water	<input type="checkbox"/> Exhibit	<input type="checkbox"/> Promotion	<input type="checkbox"/> Tariff
<input type="checkbox"/> Water/Sewer	<input type="checkbox"/> Expedited Consideration	<input type="checkbox"/> Proposed Order	<input type="checkbox"/> Other:
<input type="checkbox"/> Administrative Matter	<input type="checkbox"/> Interconnection Agreement	<input type="checkbox"/> Protest	
<input type="checkbox"/> Other:	<input type="checkbox"/> Interconnection Amendment	<input type="checkbox"/> Publisher's Affidavit	
	<input type="checkbox"/> Late-Filed Exhibit	<input type="checkbox"/> Report	



October 17, 2008

VIA ELECTRONIC FILING

The Honorable Charles Terreni
Chief Clerk/Administrator
Public Service Commission of South Carolina
101 Executive Center Drive
Columbia, South Carolina 29211

RE: South Carolina Electric & Gas Company
Petition for an Accounting Order

Dear Mr. Terreni:

Enclosed for filing on behalf of South Carolina Electric & Gas Company ("SCE&G") is a Petition for an accounting order authorizing SCE&G to delay the commencement of depreciation of certain pollution control facilities and to defer purchased power and incremental operation and maintenance expenses that will be incurred as a result of construction of these pollution control facilities. SCE&G respectfully requests that this Petition be placed on the Commission's Agenda expeditiously and that the Commission rule on this matter at its next agenda meeting currently scheduled for October 22, 2008.

By copy of this letter, we are also serving counsel for the South Carolina Office of Regulatory Staff with a copy of the enclosed Petition and attach a certificate of service to that effect.

If you have any questions, please advise.

Very truly yours,

K. Chad Burgess

KCB/kms
Enclosures

cc: Shannon Bowyer Hudson, Esquire
(w/enclosures)

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA

DOCKET NO. 2008-____-E

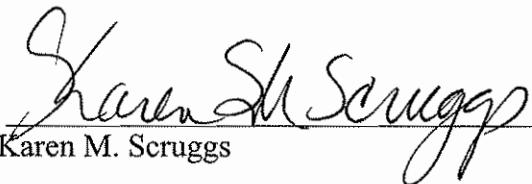
IN RE:

Petition of South Carolina Electric & Gas)
Company for authorization to delay the)
commencement of depreciation of certain)
pollution control facilities and to defer)
purchased power and incremental operation)
and maintenance expenses that will be)
incurred as a result of construction of these)
pollution control facilities)
_____)

**CERTIFICATE
OF SERVICE**

This is the certify that I have caused to be served this day one (1) copy of South Carolina Electric & Gas Company's **Petition for an Accounting Order** via hand delivery to the persons named below at the address set forth:

Shannon Bowyer Hudson, Esquire
Office of Regulatory Staff
1401 Main Street, Suite 900
Columbia, SC 29201



Karen M. Scruggs

Columbia, South Carolina
This 17th day of October 2008

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA

DOCKET NO. 2008 - ____ - E

IN RE:

Petition of South Carolina Electric & Gas)	
Company for authorization to delay the)	
commencement of depreciation of certain)	PETITION OF SOUTH CAROLINA
pollution control facilities and to defer)	ELECTRIC & GAS COMPANY
purchased power and incremental operation)	FOR AN ACCOUNTING ORDER
and maintenance expenses that will be)	
incurred as a result of construction of)	
these pollution control facilities.)	
_____)	

South Carolina Electric & Gas Company ("SCE&G" or the "Company") hereby files with the Public Service Commission of South Carolina ("Commission") this petition, pursuant to S.C. Code Ann. § 58-27-1540 (Supp. 2007) and 26 S.C. Code Ann. Reg. 103-825 (1976, as amended), seeking an accounting order for regulatory accounting purposes authorizing SCE&G to (i) delay the commencement of depreciation that the Company will incur after certain pollution control facilities are completed and placed into utility service, (ii) defer as a regulatory asset the incremental purchased power expense that SCE&G will incur when South Carolina Generating Company, Inc. ("GENCO") includes certain pollution control facilities within its rate base, thus becoming part of its billing to SCE&G, and (iii) defer as a regulatory asset the incremental operation and maintenance expenses that SCE&G will incur associated with these pollution control facilities.

The request for relief set forth herein will not involve a change to any of SCE&G's retail rates or prices at this time, or require any change in any Commission rule, regulation or policy.

In addition, the issuance of the requested accounting order will not prejudice the right of any party to address these issues in a subsequent general rate case proceeding. Accordingly, neither notice to the public at-large, nor a hearing is required regarding this Petition.

In support of this Petition, the Company would respectfully show unto this Commission the following key facts and would request of and apply to the Commission for the following relief:

1. SCE&G is a corporation organized and existing under the laws of the State of South Carolina. Further, SCE&G is, in part, an electric utility engaged in the generation, transmission, distribution, and sale of electricity to the public for consumption. SCE&G's retail electric operations are subject to the jurisdiction of the Commission pursuant to the provisions of Chapter 27 of Title 58 of the South Carolina Code of Laws.

2. Corporate legal counsel for SCE&G in this proceeding are as follows:

Catherine D. Taylor, Esquire
K. Chad Burgess, Esquire
South Carolina Electric & Gas Company
1426 Main Street, MC 130
Columbia, South Carolina 29201
Telephone: 803-217-8141
Facsimile: 803-217-7931
cdtaylor@scana.com
chad.burgess@scana.com

All correspondence and any other matters relative to this proceeding should be addressed to the Company's authorized representatives as stated hereinabove.

3. SCE&G operates an integrated electric utility system that serves over 643,000 customers in 24 counties covering nearly 16,000 square miles in central, southern and southwestern portions of South Carolina. SCE&G's service territory includes the metropolitan

areas of Charleston, Columbia, Beaufort, and Aiken and many other smaller cities and towns, and rural areas in South Carolina.

4. GENCO owns and operates the Arthur M. Williams generating station (“Williams Station”) located in Berkeley County. Pursuant to a Unit Power Sales Agreement, SCE&G purchases from GENCO all the power generated by Williams Station. As a result, any depreciation expense, operation and maintenance expense, and return on rate base related to the assets of GENCO are billed to SCE&G where they are recorded as purchased power expense. This component of purchased power (*i.e.*, depreciation expense, operation and maintenance expense, and return on rate base) is not recovered by SCE&G through the fuel clause mechanism, S.C. Code Ann. § 58-27-865 (1976, as amended), but instead is a component of SCE&G’s base rates.

5. In March 2005, the United States Environmental Protection Agency (“EPA”) issued a final rule known as the Clean Air Interstate Rule (“CAIR”). CAIR required that the District of Columbia and twenty-eight (28) states, including South Carolina, reduce sulfur dioxide (“SO₂”) and nitrogen oxide (“NO_x”) emissions in order to attain mandated air quality levels. CAIR established emission limits to be met in two phases beginning in 2009 and 2015, respectively for NO_x and beginning in 2010 and 2015, respectively for SO₂. In addition, the EPA required some states to enact a State Implementation Plan designed to address air quality issues. The South Carolina State Implementation Plan (the “Plan”) required, among other things, the reduction of SO₂ emissions from coal-fired generating facilities. The Plan also required a reduction in NO_x emissions in the months of May through September until 2009 when the CAIR limits would become effective. CAIR and the Plan directly impacted SCE&G and GENCO.

6. As a result of CAIR and the Plan and to meet its compliance requirements, SCE&G decided to install desulfurization equipment (wet scrubber) in connection with the operation of the Company's Wateree generating station located in Richland County ("Wateree Station") to reduce SO₂ emissions at the plant. In addition, SCE&G elected to install a Selective Catalytic Reactor ("SCR") at its Cope generating station located in Orangeburg County ("Cope Station") to reduce NO_x emissions at the plant. As of August 31, 2008, SCE&G has incurred approximately \$164 million in costs related to the construction of the wet scrubber at Wateree Station and approximately \$44 million in costs in connection with the construction of the SCR at Cope Station. Construction of the wet scrubber and SCR continues today.

7. With regard to GENCO, it was also decided that desulfurization equipment (wet scrubber) should be installed in connection with the operation of Williams Station in order to meet the compliance requirements of CAIR and the Plan. As of August 31, 2008, GENCO has incurred approximately \$135 million in costs related to the construction of the wet scrubber at Williams Station. Construction of the wet scrubber at Williams Station continues today. For ease of reference, SCE&G's wet scrubber, its SCR and GENCO's wet scrubber are collectively referred to herein as the "Pollution Control Facilities."

8. After installation is complete, the wet scrubbers will be capable of reducing SO₂ emissions on SCE&G's system by approximately 56%. Moreover, the wet scrubbers will significantly reduce mercury emissions on SCE&G's system as well. In addition, after SCE&G's SCR becomes operational, it will be capable of reducing NO_x emissions at the Cope Station by approximately 90%. These reductions in emissions will be a great benefit to the environment of South Carolina.

9. On July 11, 2008, the United States Court of Appeals for the District of Columbia Circuit, vacated CAIR in its entirety and remanded it to the EPA for further rulemaking. As of the date of this Petition, the EPA has not taken any action concerning the issuance of a new or revised rule addressing air quality standards. Nevertheless, SCE&G anticipates that the EPA will take some action in the future but at this time does not know what impact any newly issued rule will have on its electric utility operations.

10. A significant amount of capital has already been invested by SCE&G and GENCO to comply with air quality standards. Although there is uncertainty regarding future action to be taken by the EPA, the Company continues to believe that there are significant environmental benefits to be achieved through reduced SO₂ and NO_x emissions, and that the Pollution Control Facilities will be critical to meeting future regulatory requirements. Therefore, SCE&G and GENCO are continuing with the construction of their Pollution Control Facilities.

11. SCE&G anticipates that its SCR at Cope Station will be operational in late 2008 and its wet scrubber at Wateree Station will be operational in late 2009. To complete the SCR at Cope Station, SCE&G anticipates incurring additional costs of approximately \$25 million, and to complete the wet scrubber at Wateree Station, the Company anticipates incurring additional costs of approximately \$123 million.

12. GENCO anticipates that its wet scrubber at Williams Station will be operational in late 2009. To complete the wet scrubber, GENCO anticipates incurring additional expenditures of approximately \$130 million.

13. In sum and when completed, the Pollution Control Facilities at SCE&G's and GENCO's generation stations will cost approximately \$621 million.

14. The Pollution Control Facilities are a significant capital investment and as a result, the annual depreciation expense associated with these assets will also be significant. At current depreciation rates, SCE&G anticipates that the annual depreciation expense for SCE&G's wet scrubber will total approximately \$18 million and approximately \$3 million for the SCR. For GENCO's wet scrubber, SCE&G anticipates that the annual depreciation expense will total approximately \$7 million. In sum, the annual depreciation expense to be incurred by SCE&G as a result of the Pollution Control Facilities will be approximately \$28 million.

15. Under Generally Accepted Accounting Principles ("GAAP") and in accordance with the Federal Energy Regulatory Commission's Uniform System of Accounts (as adopted by this Commission), the cost of assets such as these Pollution Control Facilities are recorded on the Company's balance sheet as fixed assets and are charged to expense over the period in which these assets provide utility service and contribute to the earnings process. This systematic and rational allocation of an asset's costs over its service life and period of benefit is referred to as depreciation. Depreciation allows for the matching of expenses associated with a fixed asset to the revenue that the Company recognizes as a result of utilizing that asset to provide service. Under GAAP, this is referred to as the matching principle and is a fundamental concept in the accounting model. As part of electric utility rate-making, annual depreciation expenses are included within the utility's Commission approved base rates.

16. The large amount of annual depreciation expense that SCE&G expects to incur after completion of the Pollution Control Facilities is not currently included within SCE&G's existing base rates. Therefore, it is not possible for the Company to "match" this expense with revenue to be collected. With such a large mismatch of expense to revenue, this event is a fundamental and material departure from the matching principle.

17. In addition to the increased depreciation costs associated with the Pollution Control Facilities, SCE&G and GENCO will also experience an increase in incremental operation and maintenance costs. Although the amount of additional incremental operation and maintenance cost incurred will be dependent on various factors such as operational usage and pricing when these costs are incurred, based on industry experience the Company believes that these increased costs will be significant.

18. Based upon the foregoing, SCE&G respectfully requests that the Commission grant the Company authorization to delay commencement of the depreciation of its wet scrubber at Wateree Station and its SCR at Cope Station until such time as rate recovery for these assets is provided for in SCE&G's Commission approved base rates. SCE&G further requests that it be allowed to defer as a regulatory asset the incremental operation and maintenance costs that it will incur associated with these Pollution Control Facilities at Wateree Station and Cope Station until such time as rate recovery of these costs is provided for in base rates. Additionally, because SCE&G purchases all the power generated at GENCO's Williams Station, the Company respectfully requests that the Commission grant SCE&G authorization to defer as a regulatory asset the purchased power expense (reflecting depreciation cost, return on rate base and incremental operation and maintenances costs) associated with the addition of the wet scrubber to GENCO's rate base until such time as recovery for these expenses is provided for in SCE&G's Commission approved base rates.

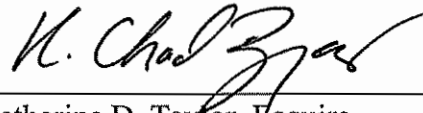
19. If the Commission approves SCE&G's request, then the Company would not begin depreciation of the wet scrubber at Wateree Station or the SCR at Cope Station until such time as rate recovery for these assets is provided for in SCE&G's Commission approved base rates. Additionally, SCE&G would defer the incremental operation and maintenance costs

associated with the Pollution Control Facilities at Wateree Station and Cope Station, defer costs associated with the purchased power expense resulting from the addition of GENCO's wet scrubber to its rate base and seek recovery of these deferred expenses in a future application with the Commission seeking approval to adjust its retail rates and charges in a general rate case proceeding. In such a proceeding, the Company will request an appropriate mechanism for the recovery of these deferred expenses. At the present time, SCE&G has not made a decision as to when the Company will seek recovery of these costs.

WHEREFORE, having set forth its Petition, SCE&G respectfully requests that the Commission issue an order authorizing SCE&G to (i) delay commencement of the depreciation of its wet scrubber at Wateree Station and its SCR at Cope Station until such time as rate recovery for these assets is provided for in SCE&G's Commission approved base rates; (ii) defer as a regulatory asset the purchased power expense that SCE&G will incur when GENCO includes its wet scrubber at Williams Station within its rate base until such time as recovery for these expenses are provided for in SCE&G's Commission approved base rates; (iii) defer as a regulatory asset the incremental operation and maintenance expenses that it will incur associated with these pollution control facilities and (iv) grant such other and further relief as is just and proper.

[SIGNATURE PAGE FOLLOWS]

Respectfully submitted,

A handwritten signature in black ink, appearing to read "K. Chad Burgess", written over a horizontal line.

Catherine D. Taylor, Esquire

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Attorneys for Petitioner

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Columbia, South Carolina
October 17, 2008